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C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 002741

SIPDIS

STATE FOR NEA/ARPI RSMYTH, S/CT MMILLER, TKUSHNER
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TREASURY FOR ZARATE, GLASNER, MURDEN

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TAGS: PTER KTFN FAID EFIN TC UAE
SUBJECT: INCONSISTENT UAE CHARITY OVERSIGHT, A SYSTEM
VULNERABLE TO ABUSE

REF: A. A) 2005 ABU DHABI 02169
B. B) 2005 DUBAI 02004
C. C) 2003 ABU DHABI 01904
D. D) 2005 ABU DHABI 00864
E. E) 2004 ABU DHABI 04218

Classified By: Ambassador Michele J. Sison for reasons 1.4 (b) and (d).

11. (C) Summary. The UAE Government, aware that mechanisms of charitable giving could be used to provide a cover for the financing of terror, has established regulations and procedures to try to ensure that charitable funds are not diverted for terrorist purposes. The regulatory regime for licensing and monitoring UAE charities is robust; however, implementation and enforcement of the laws are inconsistent. Significant gaps in the monitoring of charities make it possible they could wittingly or unwittingly serve as a cover for illicit activity; however we do not have a way to assess whether individuals or charities are exploiting these gaps. The most glaring gap is that less than half of UAE charities are federally licensed and regulated; the rest are licensed by local emirates and operate largely independent of federal guidelines. Federal law stipulates that charities are not allowed to undertake any activity abroad without prior permission from the Ministry of Labor and Social Affairs, and it requires that all charitable donations directed overseas be channeled through one of three government-approved charities. Anecdotal information suggests that charities in Abu Dhabi abide by the regulations, but outside of Abu Dhabi, the effectiveness of the federal regulatory regime is less clear. End Summary.

Federal vs. Emirate-Level Oversight

12. (C) UAE Federal law No. 6 of 1974 stipulates that the Ministry of Labor and Social Affairs is to license and supervise UAE charities and NGOs; however, many charities are licensed by local emirates and do not come under the purview of the Ministry's regulation and oversight requirements. According to a booklet on NGOs issued by the Ministry of Labor and Social Affairs, there are eleven federally licensed charities. At least eighteen other charities are locally licensed, but we do not have concrete information to indicate exactly how many additional locally licensed charities operate in the UAE. Two of the three largest UAE charities are locally licensed: the Mohammed Bin Rashid Foundation (MBR Foundation, licensed in Dubai) and Human Appeal International (HAI, licensed in Ajman; ref A). A member of the MBR Foundation Board of Trustees told Econoff that since the MBR Foundation is licensed by the Government of Dubai, "there is no need to be registered or have any interaction with the Ministry of Labor." Mariam Al Roumi, Undersecretary for Social Affairs at the Ministry of Labor and Social Affairs, told Econoff that locally licensed charities can only operate within their "home" emirate. In order to conduct activities in any other emirates, they have to get permission from the Ministry, but officials from locally licensed charities do not seem to be aware of this requirement.

13. (C) In addition to the federally and locally licensed charities, there is a separate category of charitable organizations present in the UAE -- those in Dubai Aid City (DAC) and Dubai Humanitarian City (DHC) (ref B). DAC and DHC are free zones, which offer 100 percent import/export tax exemptions, and house offices and warehouses for local and international NGOs. The charities within DAC and DHC are licensed as businesses by Dubai's free zone authorities, and do not come under the purview of any federal or municipal regulations for charitable organizations. According to Barbara Castek, head of DAC, the financial transactions of NGOs in DAC and DHC are monitored by the Central Bank, the same as all other financial transactions in the UAE, as per the federal guidelines for anti-money laundering and counter terror finance. However, DAC and DHC do not independently monitor the activities of organizations operating within the free zone. According to Peter Casier, the Director of the United Nations World Food Program Support Office in DHC, Humanitarian City does carefully vet organizations that apply to operate within DHC, but he is aware that several NGOs

inside DHC had solicited charitable donations and sent funds abroad without permission from the Ministry of Labor and Social Affairs.

Federal Ministry's Oversight Role...Administrative

14. (C) UAE federal law governs charities and non-governmental organizations (NGOs) in the same manner and does not distinguish between NGOs and charities. The Ministry of Labor and Social Affairs licenses and monitors 106 non-governmental social welfare associations, of which only eleven are charities. As a result, the 32 Ministry staff members responsible for licensing and auditing NGOs do not focus specifically on monitoring the activities of the charities that the Ministry licenses. Moreover, the staff is administrative in nature and does not have investigative or enforcement capabilities. According to the law governing NGO activity, the Ministry must approve all meetings or activities before they can be held, and it has the authority to conduct site visits to review the organizations' records. However, according to a former executive of Dubai Aid City, the Ministry staff simply grants licenses and examines the NGOs' yearly financial and administrative reports. Al Roumi stated that if the Ministry suspects a charity is engaged in potentially illegal activity, Ministry officials first warn the charity. If the activity continues, the Ministry reports them to the police, and may revoke their license and shut them down. "We have never had to refer a charity to Ministry of Interior for investigation. Eighteen years ago, we closed a Pakistani charity, but that was the last time."

International Restrictions...Not Uniformly Enforced

15. (C) According to the law, charities are not allowed to undertake any activity abroad -- to include transferring money, establishing offices, collecting donations, or participating in activities -- without prior permission from the Ministry of Labor and Social Affairs. UAE officials have told us that charities in Abu Dhabi abide by these regulations, and our own interactions with Abu Dhabi charities indicates this is true; however, charities licensed in other emirates often do not.

16. (C) In 1994 the UAE passed a resolution requiring charities to make international donations through the UAE Red Crescent Society, and Ministry officials have told us that they also allow charities to send funds through the Sheikh Zayed Charitable and Humanitarian Foundation and the Mohammed Bin Rashid Charitable and Humanitarian Foundation (refs C and D). However, according to Central Bank Governor Sultan Nasser Al Suwaidi, "There is nothing to prevent charities from transferring money overseas." He told Econoff that he believes the system works in Abu Dhabi and Dubai, but charities in the other emirates "may not" send their money through one of the three approved charities. Officials at the Ministry of Labor and Social Affairs have told us that banks are aware that they cannot send funds from charities overseas, but many of our financial contacts are not aware of this regulation. John Williams, COO and Chief Compliance Officer of Standard Chartered in the UAE, said that his bank "had received no written guidance (from the Central Bank) on charities sending money abroad and there's no policy on it."

17. (C) The UAEG trusts that the three government-approved charities' efforts and initiatives are all above-board, and our interactions with them tend to confirm this. Sana Derwish Al Kitbi, Secretary General of the UAE Red Crescent Society, described the Red Crescent's 3-fold security checks to ensure projects are legitimate and needed: the Red Crescent works with the UAE Embassy in the recipient country, they consult the country's Embassy and other Government officials, and the Red Crescent conducts its own in-house research. The MBR Foundation, which supervises and finances relief programs of recipient country NGOs (as opposed to actually implementing the projects itself), uses six criteria to determine that the local charity's activities are legitimate. Abdurahman Bin Sobeih, a member of the MBR Foundation board of trustees, told Econoff, "We conduct these checks because we believe it is essential to ensure security while encouraging aid. Donors trust that a donation to our foundation is a safe donation." The General Manager of the Sheikh Zayed Charitable Foundation told Econoff that the Foundation conducts its own programs and works independently in foreign countries to build needed projects (particularly schools and hospitals), and in this manner the Foundation is able to ensure that its funds are used for legitimate projects.

18. (C) The Red Crescent's Al Kitbi told Econoff that older charities, whose existence predates the requirements restricting external operations, have resisted bringing their international activities under the umbrella of one of the government-approved charities. She said that, over time, more and more have begun using the Red Crescent (particularly

the smaller charities and those located in Abu Dhabi), but there are still many charities that prefer to conduct their own activities abroad. Bin Sobeih told Econoff that many Dubai charities use the MBR Foundation as a conduit for sending money and supplies to other countries, but that not all of the charities go through the MBR Foundation. As an example, Ajman-based Human Appeal International, which was established in 1984, has offices in twelve different countries. According to Secretary General of HAI, Salem Ahmed Abdul Rahman Al Nuaimi, HAI's only federally-approved branch is in Iraq, and it works with the Red Crescent and MBR Foundation only occasionally for discreet aid and relief programs (ref A).

Financial Regulations...But Who Is Checking?

¶ 9. (C) According to the law, charities are only allowed to have one bank account, and before a bank can open an account for a charitable society, the organization is required to present its license (signed by the Minister of Labor and Social Affairs) to the bank. The UAE Central Bank has widely publicized the requirement to show the Ministry of Labor license upon opening a bank account, but charities themselves may not be aware of the restriction against having more than one account. For example, HAI's Al Nuaimi told Econoff that HAI has 30 bank accounts in the UAE so as to avoid incurring fees when money is transferred from one bank to another.

¶ 10. (C) Charities are required to provide their bank account information to the Ministry of Labor and Social Affairs, but Ministry officials have told us that it is up to the Central Bank to track an organization's transactions. However, it is unclear whether the Central Bank's examiners focus on charity transactions as a specific category during their bank examinations. Governor Al Suwaidi told Econoff that he does not know whether the bank's examiners are looking at charitable transactions more stringently than any other bank transaction.

¶ 11. (C) The Ministry of Labor also requires charities to submit records identifying the donor, amount, and beneficiary for all charitable donations, even those for causes in the UAE, but Al Roumi acknowledges that the staff reviewing the annual reports is administrative in nature, and it is not clear that the Ministry has the capability to examine charities' yearly reports with an eye toward detecting diversionary activity. Additionally, only charities licensed by the Ministry adhere to this reporting requirement -- the Sheikh Zayed Charitable Foundation, which is funded by a trust established by former President Sheikh Zayed and not licensed by the Ministry, submits its annual audit report to the UAE Ministry of Foreign Affairs, and the locally licensed charities submit their annual reports to the entity that issued their licenses.

Comment

¶ 12. (C) Mid-level UAE officials tend to indicate that their system of monitoring and regulating charities is effective. They do not acknowledge that their system has gaps; however in her meetings with Econoff, Al Roumi indicated she would be interested in U.S. suggestions on practical ways to monitor charities.

¶ 13. (C) Despite the legal and regulatory requirements, UAE authorities do not have the capacity to monitor charities carefully. The lack of enforcement mechanisms for noncompliance and the absence of a uniform, federal licensing and monitoring system open up the possibility that UAE charities could unwittingly or unwittingly be used as cover for illicit activity. While the federal law regulating charities is strict, inconsistent application and a lack of enforcement expertise open the system up for abuse.

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